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SUBJECT: LABOR'S NUMBER TWO: ELECTIONS WILL BE A FIGHT FOR
THE CENTER, RUSSIAN VOTE

Classified By: Deputy Chief of Mission Gene A. Cretz for reasons 1.4 (b
,d).

1. (C) Summary: Labor Party MK Itzhak Herzog told NEA DAS Robert Danin January 25 that Kadima, Labor, and Likud will be battling over the some 80 Knesset seats that he assesses will go to the political center, as well as for the Russian vote. Herzog expressed resignation that Labor would not win over Kadima, although at times he suggested that the tide could still turn in Labor's favor. He expressed confidence that Labor would enter into a coalition with Kadima. Herzog said that Labor Party Chairman Amir Peretz will continue to focus the Labor Party's campaign on economic and social policy while closely mirroring Kadima's platform on security and diplomatic issues. On the Palestinian elections, Herzog expressed concern that if Hamas does well in the elections, the Europeans would exert pressure on Israel and the U.S. to recognize Hamas. He claimed that as Housing Minister, settlement growth had "dried up." Justice and Foreign Minister Tzipi Livni is confused over definitions of settlement growth, according to Herzog, and has therefore not advanced the work of the interministerial committee to respond to the Talia Sasson report on settlements and outposts, which she chairs. End summary.

Herzog Worried About Hamas

2. (C) Labor MK Itzhak (Booji) Herzog -- number two on Labor's party list -- began a meeting with NEA DAS Danin January 25 -- the day of the Palestinian Legislative Council elections -- by expressing concern that the Europeans would begin to press the GOI and the USG to talk to Hamas if Hamas does well in the elections. Danin stressed that we had taken a firm position on Hamas, but noted that the USG and the GOI would have to assess the results of the PLC elections. Herzog said that Peretz believes that Hamas will moderate itself as it becomes caught up in the business of governing and "delivering" to the public. Herzog added, however, that his brother, Brig. Gen. Michael Herzog, is more skeptical about this prospect. (Note: Danin meet earlier in the week with Michael Herzog. End note.) Herzog said he shares Danin's concern that Hamas may simultaneously engage in the business of governing while at the same time conducting terrorist acts. Herzog assessed that some Hamas candidates are not Hamas "cronies," but people who had just rejected Fatah. Herzog highlighted the need to "analyze the intricacies between candidates."

Labor Will be Happy with 25 Seats

3. (C) Turning to Israeli domestic politics, Herzog said it is a "big mistake" to predict a Kadima win some two months before the elections since the tide could still turn. Herzog did, at one point in the meeting, however, acknowledge that the next government would likely be led by Kadima in a coalition with Labor. "I would be happy if Labor receives 25 seats," Herzog said. (Note: This would be a good showing since the polls show Labor hovering at 21-22 seats if elections were held today. End note.) Herzog said that he expects Peretz would be offered the finance ministry portfolio if Labor joins a Kadima government, describing Peretz as "smart" and someone with business sense. He also highlighted Peretz's skills as a negotiator, gained during his time as chief of the Histadrut labor union.

4. (C) Giving what he characterized as a "closed door analysis" of the politic scene, Herzog assessed that Kadima's creation answered the public's need for a centrist party. Kadima captured voters from Likud, the Russian sector, Shinui, and some one-third from Labor, who left with former Labor Party interim chair Shimon Peres to Kadima, Herzog said. He expressed concern that more of the Russian voters may shift their support to Avigdor Lieberman's anti-disengagement right-wing Yisrael Beiteinu Party, which is geared toward the interests of Israel's over one-million strong Russian immigrant community. According to Herzog, some one million Kadima supporters are "soft" and could potentially shift their loyalty to another party. Any terrorist attacks will help Likud, Herzog assessed.

5. (C) Herzog said that Labor receives its support from

multiple sources including those people hurt by former Finance Minister Likud Chairman Binyamin Netanyahu's economic policy, leftists who want to associate with a larger party, Israeli Arabs who want to enter mainstream politics, and youth. He acknowledged that Labor's support in the polls had gone down after the formation of Kadima, and also due to what he described as the public perception of Peretz as "inexperienced, aggressive, and Moroccan." This changed, Herzog said, after the January 15 Labor primaries and Labor's "great" Knesset list, a "team," Peretz noted, that includes Ashkenazi members (those with a European background) to balance out Peretz's Sephardi background (those from North Africa and the Middle East).

16. (C) Danin noted that in a meeting with Peretz last November, Peretz said he would base his campaign on domestic issues and asked if this agenda had changed. Herzog stressed that Peretz's focus would remain on domestic issues, including on education. He acknowledged Peretz's weakness in addressing security issues, and for this reason, said that Peretz surrounds himself with those in Labor who have a security background, such as former head of the Israel Security Agency (Shin Bet) Ami Ayalon.

Kadima is "Shrewd"

17. (C) Herzog criticized Alternate Prime Minister Ehud Olmert's January 24 speech at the Herzliya Conference for not adequately addressing the problem of poverty in Israel. Olmert's speech, Herzog assessed, was directed at capturing Likud voters. Asked about Likud voters' reaction to Olmert's references to removing illegal outposts, Herzog stressed that Likud voters respect the rule of law and therefore oppose the illegal outposts. Herzog, with some sarcasm, said that Olmert had "played prime minister" when giving his speech and had "done brilliantly," adding that "now he's got Tzipi (Livni as Foreign Minister)." Herzog criticized (and backhandedly praised) Olmert for praising Netanyahu's accomplishments as Finance Minister in his speech, exclaiming that the Kadima team is "shrewd." He characterized as a "trick of the trade" any efforts by Kadima to push an Olmert visit to the U.S. before the elections. Danin stressed that the USG appreciated the sensitivity of the moment and does not want to involve itself in election politics. (Note: Herzog had accused the USG of showing party favoritism when reports appeared last week that Olmert was planning a visit to the U.S. End note.)

18. (C) Without naming names, Herzog underlined that Olmert's inner circle is different from that of Sharon and predicted that "the Sharon courtyard will fade away." Herzog continued that Avraham Hirschson -- one of the 13 MKs who left Likud with Sharon to form Kadima -- is a close friend and confidant of Olmert's, whom Herzog described as "very nice and modest," adding, "I like him a lot."

Settlement Growth "Drying Up"

19. (C) Danin asked Herzog about the last housing tenders he approved as Housing Minister and about settlement growth in general. Herzog asserted that during his tenure as Housing Minister, settlement growth has "dried up." He said that he only approved 300 units in neighborhood 07 in Ma'ale Adumim and that building there was within the line of construction. Herzog claimed that a "false" perception exists that settlements are growing, when this growth should be attributed to the high birth rate among some of the border town religious communities such as Betar Ilit. He underscored that he did not "touch E-1." He claimed that little construction is taking place in the Ariel settlement except for a small amount attracted by the new university there. Herzog acknowledged that he had approved construction of a town hall there.

110. (C) Herzog said that he does not see much construction taking place in the West Bank in general unless it is being done "privately." He claimed that in a meeting with Peace Now director Yariv Oppenheimer (Herzog did not specify when), Oppenheimer agreed that there had not been major changes in West Bank settlement construction. (Note: Peace Now's position is that most of the construction is taking place in the seam line, but not in the West Bank. End Note.) Herzog said that he tried not to bring attention to his having dried up settlement growth while Housing Minister so as not to "hurt" Sharon, but said he later touted this claim during his recent campaign in the Labor Party primaries.

111. (C) In response to Danin's question as to why it had been so difficult for the GOI to declare its adherence to elements of a settlement freeze, Herzog professed confusion as to the definition of natural growth. He claimed that Minister of Justice and Foreign Affairs Tzipi Livni also has

questions about the "definitions" of growth, and he suggested that the USG "talk to her" about this. Herzog commented that Livni still has not completed her interministerial committee report to respond to attorney Talia Sasson's report on illegal outposts. Commenting on the problem of illegal outposts and defining which outposts are illegal, Herzog said that there is a "big dark hole" in the Ministry of Defense and "they are now working on how to get out of it."

12. (U) NEA/DAS Danin cleared this message.

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JONES